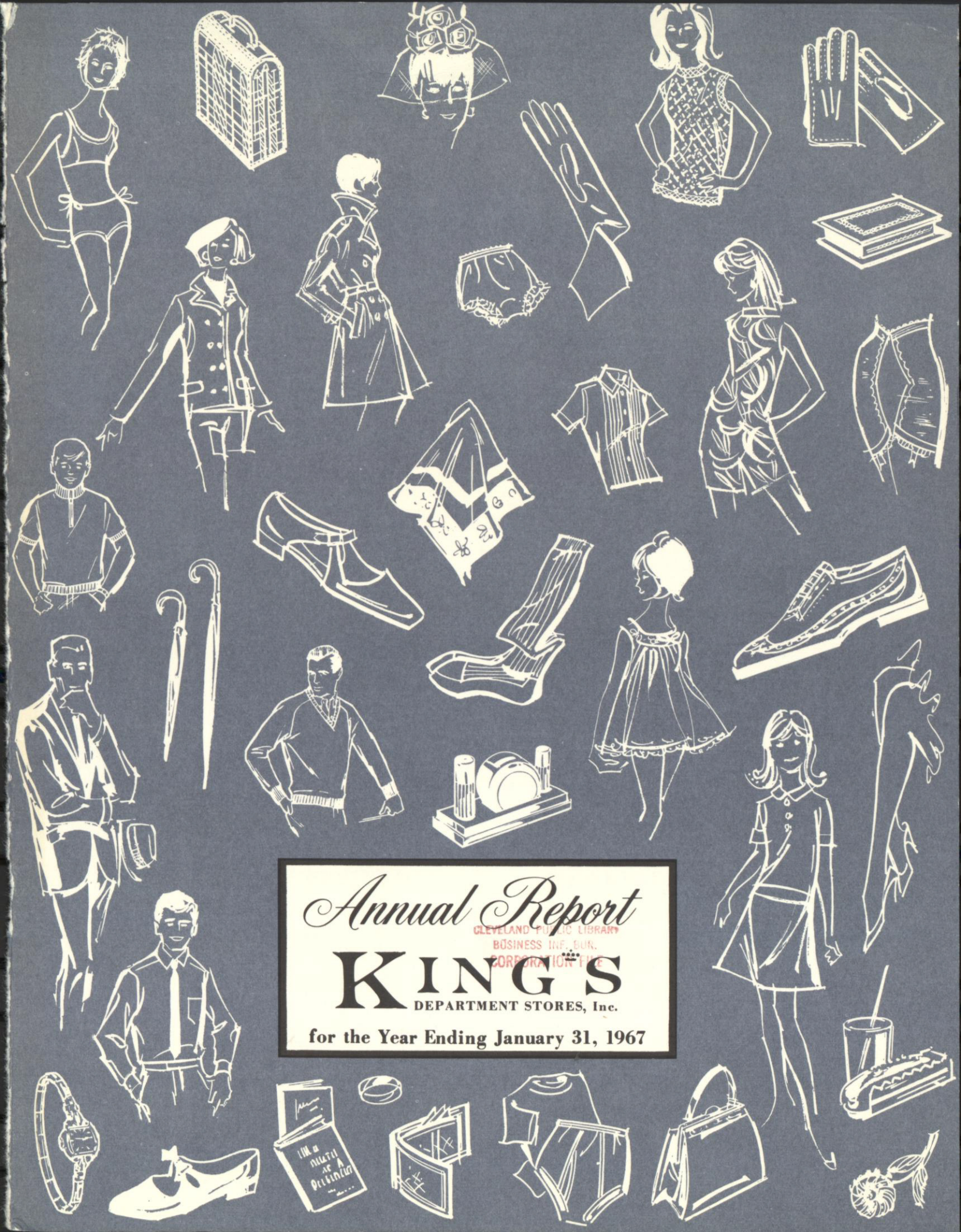


Annual Report

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

KING'S

DEPARTMENT STORES, Inc.

for the Year Ending January 31, 1967

King's Department Stores, Inc. and Subsidiaries

Denver, Colorado

Manchester, Connecticut
Meriden, Connecticut
Milford, Connecticut
New Haven, Connecticut
Seymour, Connecticut
Stamford, Connecticut
West Hartford, Connecticut

Ft. Lauderdale, Florida
Jacksonville, Florida
West Palm Beach, Florida

Auburn, Maine
Falmouth, Maine

Brockton, Massachusetts
Fitchburg, Massachusetts
Hyannis, Massachusetts
Lowell, Massachusetts
Methuen, Massachusetts
Newton, Massachusetts
North Attleboro, Mass.
Quincy, Mass.
Shrewsbury, Massachusetts
Springfield, Massachusetts
West Roxbury, Massachusetts

Concord, New Hampshire
Portsmouth, New Hampshire

Edgewater Park, New Jersey
Vineland, New Jersey

Albany, New York
Buffalo, New York
Cheektawago, New York
Niagara Falls, New York
West Seneca, New York

Durham, North Carolina
Greensboro, North Carolina
Raleigh, North Carolina
Statesville, North Carolina
Winston-Salem, North Carolina(2)

Niles, Ohio

Allentown, Pennsylvania

Newport News, Virginia
Norfolk, Virginia (2)
Richmond, Virginia
Rutland, Vermont
Virginia Beach, Virginia

Coronet Cosmetics, Inc., Newton, Mass.

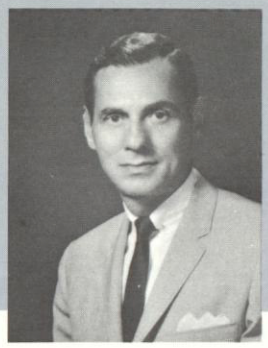
Noble Specialties, Inc., Newton, Mass.

Stores Now Under Construction

Plaistow, New Hampshire
Braintree, Massachusetts
Alliance, Ohio
Shelby, North Carolina
Wilmington, North Carolina
Youngstown, Ohio (2)

Main Offices: 150 California Street, Newton, Massachusetts 02158

TO OUR STOCKHOLDERS:



Murray A. Candib,
President

Aaron O. Cohen,
Chairman

April 15, 1967

The growth of the Company continues at an accelerated pace. Sales and earnings set new record highs, extending the trend established in prior years.

OPERATING RESULTS:

Net earnings rose to $4,104,000. This represents an 11.6% increase over 1965 earnings which totaled $3,677,000. (Earnings before taxes showed an even greater improvement, rising to $7,497,000 from $6,668,000.) Sales were 14.9% ahead for 1966 — or $128,392,000 compared with $111,706,000 for 1965. On a share basis, earnings rose to $2.43 per share from $2.17 per share in 1965.

Our operating profit (before depreciation and federal taxes on income) on sales reported at 6.4%, is among the highest in the industry. King's current assets increased 10.2%, and our after tax return on average invested capital was 22.9%. Shareholder equity increased from $16,215,000 or $9.59 per share to $19,576,000 or $11.58 per share. Working capital rose to $13,879,000 from $11,892,000 with a resultant strong 3.2 to 1 ratio of current assets to current liabilities.

A combination of factors contributed to the excellent achievement for the year recently ended. These included discerning expense control, the addition of new units, and the taking over of departments previously operated by licensees.

DIVIDENDS:

As you probably know, on April 6, the Board of Directors authorized a 5 for 4 stock split payable June 21, to holders of record as of June 2, 1967. The split is subject to stockholders approving, at the May 17, 1967 annual meeting, an increase in the Company's authorized common stock from the current 2,000,000 shares to 5,000,000 shares. At the same time the directors indicated that the 12½¢ per share current quarterly dividend rate would be continued on the new shares. This is equivalent to a 25% increase in the cash dividend rate.

It has been the Company's policy to increase its cash dividends on a basis commensurate with increased earnings.

EXPANSION PROGRAM:

During the past fiscal year we opened six stores which increased our selling space by approximately 400,000 square feet. Eighteen new units are planned for opening during the next eighteen months. These new stores will be located in Maine, New Hampshire, Massachusetts, New York, North Carolina, Ohio, Pennsylvania and Virginia. This program is well within the Company's capabilities both from the financial and personnel standpoint. As was observed above, the Company's working capital position is eminently strong; it is expected that the scheduled expansion will as in the past be financed through earnings.

OUTLOOK: ACKNOWLEDGMENT:

Discount retailing is strongly established. We believe that the present and future business prospects are excellent for the leaders in a field that is increasing at an annual rate of just under Three Billion Dollars. King's is prepared for the challenges and opportunities of the future. Our stores are modern and attractive. We have a proficient and loyal organization. Our merchandise selection and values are excellent.

The Board of Directors take this opportunity to express its appreciation to our personnel at every level of organization for their dedication and for the important contributions made by our suppliers and customers. To our shareholders we reaffirm our determination to continue King's progress.

Sincerely,

Aaron O. Cohen,
Chairman

Murray A. Candib,
President

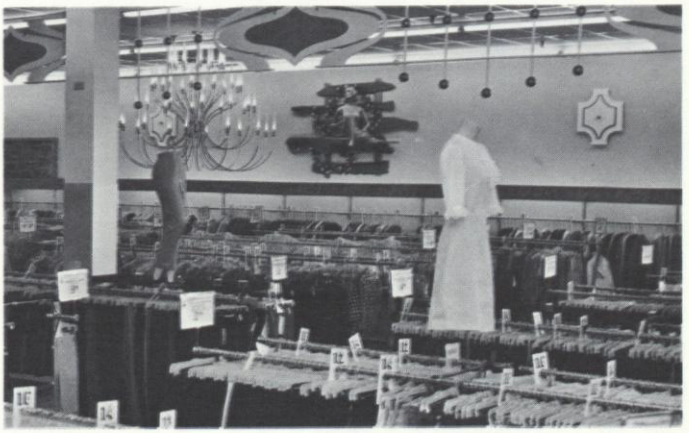
KING'S

GIRLS WEAR

SHOES
SHOES
SLIPPERS
FOR ALL THE FAMILY
BOYS SHOES
GIRLS SHOES

Mr. Bubble

GIFTWARE



Avenue Dresses
FOR MILADY

LINGERIE
BRAS & GIRDLES
SWEATERS
HANDBAGS

SWEATERS

YARNS

HARDWARE
PAINT

Six-Year Review

For The Years Ended January 31

	1967	1966	1965	1964	1963	1962
Total Sales	$128,392,000	$111,706,000	$100,819,000	$80,686,000	$62,031,000	$51,362,000
Leased Department Sales	22,351,000	27,041,000	28,722,000	22,770,000	14,416,000	9,917,000
Net Sales	106,041,000	84,665,000	72,097,000	57,916,000	47,615,000	41,445,000
Leased Department and Other Income	2,386,000	2,887,000	3,012,000	2,287,000	1,504,000	1,047,000
Total Income	108,427,000	87,552,000	75,109,000	60,203,000	49,119,000	42,492,000
Cost of Goods Sold and Expenses	100,930,000	80,884,000	69,315,000	56,911,000	46,512,000	39,865,000
Income before Taxes	7,497,000	6,668,000	5,794,000	3,292,000	2,607,000	2,627,000
Provision for Taxes	3,393,000	2,990,000	2,690,000	1,571,000	1,306,000	1,293,000
Net Income	4,104,000	3,678,000	3,104,000	1,721,000	1,301,000	1,334,000
Earnings Per Share*	2.43	2.17	1.84	1.03	.77	.79
Stock Split (Stock Dividend)	10%	—	5 for 4	5%	5%	2%
Cash Dividends	.50	.50	.30	—	—	—
Number of Stores	45	41	35	31	25	18

*Based on 1,691,176 shares outstanding.

Financial Highlights

	1967	1966
Current Assets	20,070,000	$18,210,000
Current Liabilities	6,192,000	6,318,000
Working Capital	13,878,000	11,892,000
Current Ratio	3.2	2.9
Stockholders' Equity	19,576,000	16,215,000
Equity Per Share*	11.58	9.59
Stock Split	10%	—
Cash Dividends	.50	.50

Consolidated Statement

of Earnings and Retained Earnings

	Year ended January 31, 1967	1966*
Total store sales	$128,391,719	$111,706,399
Less leased department sales	22,351,264	27,041,600
Net sales	106,040,455	84,664,799
Leased department income	2,304,271	2,736,628
Interest and other income, net	81,884	151,033
Total income	108,426,610	87,552,460
Cost of goods sold, transportation, warehousing, buying expenses	77,483,498	61,838,579
Store operating, administrative and general expenses, including leased department expenses	22,729,362	18,438,765
Depreciation and amortization	717,484	607,536
Total costs and expenses	100,930,344	80,884,880
Earnings before Federal income taxes	7,496,266	6,667,580
Federal income taxes (note 4)	3,392,975	2,990,002
Net earnings	4,103,291	3,677,578
Retained earnings at beginning of year	9,303,353	6,381,741
	13,406,644	10,059,319
Deduct:		
Cash dividends paid, $.50 per share	823,732	755,966
Market value of 151,676 shares issued as a 10% stock dividend plus cash for fractional shares	2,933,358	—
	3,757,090	755,966
Retained earnings at end of year	$ 9,649,554	$ 9,303,353

See accompanying notes to financial statements.

*Certain 1966 figures have been reclassified to conform to the 1967 presentation.

PEAT, MARWICK, MITCHELL & CO.
Certified Public Accountants
2000 Tower Building
Prudential Center
Boston, Massachusetts 02199

The Stockholders and
The Board of Directors
King's Department Stores, Inc.:

We have examined the consolidated balance sheet of King's Department Stores, Inc. and subsidiaries as of January 31, 1967 and the related statement of earnings and retained earnings and the consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings present fairly the financial position of King's Department Stores, Inc. and subsidiaries at January 31, 1967 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds for the year ended January 31, 1967 presents fairly the information shown therein.

April 3, 1967

Peat, Marwick, Mitchell & Co.

Consolidated

Assets

	January 31, 1967	1966
Current assets:		
Cash	$ 2,797,754	$ 2,737,583
Time deposits	1,000,000	1,500,000
Receivables		
Notes	79,196	—
Budget receivables	114,303	127,647
Other	279,510	290,253
Total receivables	473,009	417,900
Merchandise inventories, at lower of cost or market, principally by the retail method	15,653,175	13,361,250
Prepaid expenses	146,482	192,901
Total current assets	20,070,420	18,209,634
Fixed assets, at cost:		
Land and land improvements	204,176	163,063
Fixtures and equipment	6,900,976	5,895,545
Leasehold improvements	953,216	958,188
	8,058,368	7,016,796
Less accumulated depreciation and amortization	3,118,193	2,598,763
Net fixed assets	4,940,175	4,418,033
Other assets:		
Cash surrender value of life insurance	107,060	92,948
Unamortized leasehold acquisition costs (being amortized over lives of leases)	1,368,591	611,849
Miscellaneous investments	24,505	10,000
Total other assets	1,500,156	714,797
	$26,510,751	$23,342,464

See accompanying notes to financial statements.

Balance Sheet

Liabilities and Stockholders' Equity

	January 31, 1967	1966
Current liabilities:		
Current installment on long-term note payable	$ 154,363	$ 130,444
Accounts payable	2,229,114	2,778,626
Accrued expenses	942,287	877,633
Federal income taxes	2,865,975	2,531,032
Total current liabilities	6,191,739	6,317,735
Deferred credits:		
Federal income taxes applicable to accelerated depreciation deducted for tax purposes	404,644	363,026
Deferred compensation, net of Federal income taxes	52,000	26,000
Total deferred credits	456,644	389,026
3½% note payable:		
Due in annual installments to 1969	285,888	420,251
Stockholders' equity:		
Common stock, $1 par value (note 2). Authorized 2,000,000 shares; issued 1,691,176 shares (1966—1,526,789 shares)	1,691,176	1,526,789
Additional paid-in capital (note 3)	8,235,750	5,385,310
Retained earnings	9,649,554	9,303,353
Total stockholders' equity	19,576,480	16,215,452
	$26,510,751	$23,342,464

Notes to Financial Statements

January 31, 1967

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All intercompany accounts and transactions have been eliminated in consolidation.

2. STOCK OPTION PLANS

Options for purchase of shares of common stock have been granted to officers and key employees at 95% of the fair market value on date of grant under the 1961 and 1963 restricted plans and at 100% of fair market value on date of grant under the 1964 qualified plan which meets the requirements of the Revenue Act of 1964. The options are exercisable at the cumulative rate of 20% annually under the 1961 and 1963 plans and 25% annually under the 1964 plan.

Details of options outstanding under the plans and shares available for option under the 1964 plan follow:

	Number of Shares	
	Issuable under options granted	Available for option
Balance at beginning of year	41,558	14,335
Changes during the year:		
Options granted at $17.13 per share or a total of $128,437	7,500	(7,500)
Options exercised at prices ranging from $8.00 to $8.80 per share or a total of $102,647 as compared with quoted market prices ranging from $16.62 to $21.87 per share or a total of $219,605	(12,711)	—
Options terminated under 1964 plan	(330)	330
Balance at end of year	36,017	7,165

During the year options became exercisable to purchase 19,165 shares at prices ranging from $7.98 to $25.45 per share or a total of $208,293 as compared with quoted market values ranging from $15.25 to $18.37 per share or a total of $299,314.

The number of shares and prices per share quoted above have been adjusted to reflect stock dividends and stock splits.

3. ADDITIONAL PAID-IN CAPITAL

Balance January 31, 1966	$5,385,310
Excess of market price over par value of 151,676 shares issued as a 10% stock dividend	2,760,504
Excess of option price over par value 12,711 shares issued under stock option plans	89,936
Balance January 31, 1967	$8,235,750

4. FEDERAL INCOME TAXES

Federal income taxes consists of:	1967	1966
Taxes currently payable, less investment credit of $45,131 ($58,377 in 1966)	$3,336,000	$2,954,700
Deferred taxes	56,975	35,302
	$3,392,975	$2,990,002

5. COMMITMENTS

Total minimum annual rentals (exclusive of amounts based on sales) payable under leases amount to approximately $4,131,000 at January 31, 1967. This amount includes the minimum annual commitment on six new store locations not occupied at January 31, 1967. Such leases will expire on various dates to 1991; however, it is anticipated that as leases expire they will be renewed or new leases will be executed. Total rent expenses for the year amounted to approximately $3,863,000.

Consolidated Statement of Source and Application of Funds

	Year ended 1967	January 31, 1966
Funds were provided by:		
Net earnings for the year	$4,103,291	$3,677,578
Add charges against earnings not involving funds:		
Depreciation and amortization of fixed assets	717,484	607,536
Amortization of leasehold acquisition costs	61,258	33,992
Deferred credits, net	67,618	69,302
Sale of common shares under stock option plans	102,647	259,047
	5,052,298	4,647,455
Funds were applied to:		
Additions to fixed assets, net	1,239,626	1,504,454
Cash dividends	823,732	755,966
Leasehold acquisition costs	818,000	—
Decrease in long-term debt	134,363	130,408
Increase in cash surrender value of life insurance	14,112	11,479
Increase in miscellaneous investments	14,505	10,000
Cash paid in lieu of fractional shares of stock	21,178	—
	3,065,516	2,412,307
Increase in working capital	$1,986,782	$2,235,148

Directors

Murray A. Candib

Aaron O. Cohen

Benjamin M. Fiegar

Aaron G. Goldberg

Nathan Greenberg

Jack I. Hartblay

William F. Kenney

Charles J. Kittredge, Jr., Vice President,
The First National Bank of Boston

H. Stanley Krusen, President,
Shearson, Hamill & Co., Incorporated,
New York.

Officers

Aaron O. Cohen,
Chairman of the Board

Murray A. Candib,
President

William F. Kenney,
Executive Vice President

Aaron G. Goldberg,
Vice President—Merchandising

Jack I. Hartblay,
Vice President—N. Y. Office

Nathan Greenberg,
Vice President—Finance;
Secretary

Benjamin Fiegar, Treasurer

Transfer Agents

Old Colony Trust Company, Boston.
Marine Midland Trust Company, New York.

Registrars

First National Bank of Boston.
Chemical Bank New York Trust Company.

General Counsel

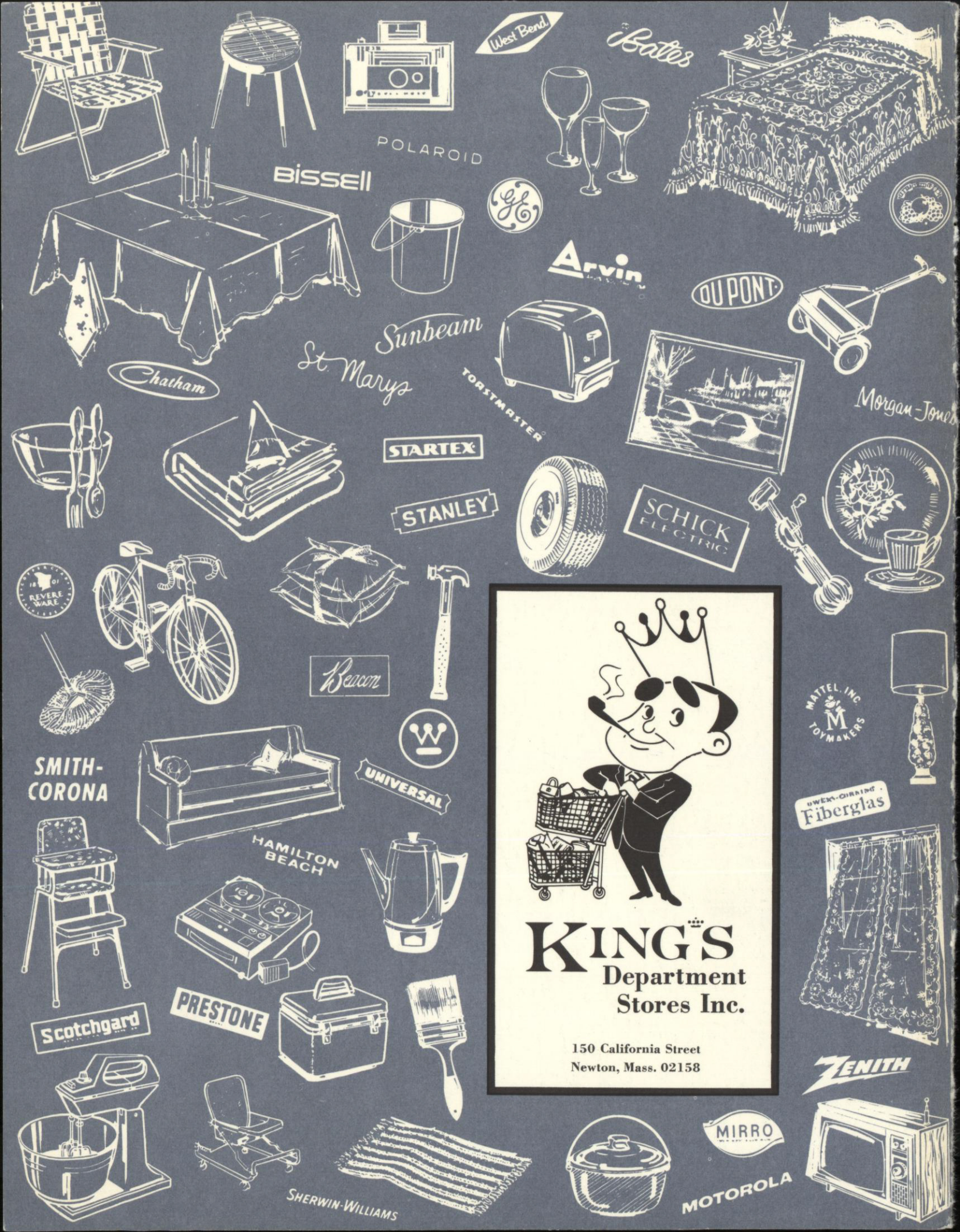
Parker, Chapin and Flattau, New York.

Auditor

Peat, Marwick, Mitchell & Co.

Executive Offices

150 California Street, Newton, Massachusetts 02158


West Bend
Bates
POLAROID
BISSELL
GE
Arvin
DU PONT
Sunbeam
St. Marys
Chatham
TOASTMASTER
Morgan-Jones
STARTEX
STANLEY
SCHICK
ELECTRIC
REVERE WARE
Beacon
SMITH-CORONA
UNIVERSAL
HAMILTON BEACH
MATTEL, INC.
TOYMAKERS
OWENS-CORNING
Fiberglas
Scotchgard
PRESTONE
ZENITH
MIRRO
MOTOROLA
SHERWIN-WILLIAMS
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Department
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150 California Street
Newton, Mass. 02158